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TAGS: [PREL](#) [ECON](#) [EFIN](#)  
SUBJECT: DEPUTY SECRETARY KIMMITT AND PERMANENT UNDER  
SECRETARY RICKETTS DISCUSS IRAQ, IRAN, AFGHANISTAN AND

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SOVEREIGN WEALTH FUNDS

Classified By: AMBASSADOR ROBERT TUTTLE FOR REASONS 1.4 B & D

11. (S/NF) SUMMARY Deputy Secretary of Treasury Robert Kimmitt and Ambassador Tuttle met Peter Ricketts, UK Permanent Under Secretary (PUS) at the Foreign and Commonwealth Office on March 10. Both sides agreed on the need to plan for the one-year review conference for the International Compact with Iraq, and suggested Stockholm, Brussels, or Madrid as possible locations. The Paris Afghanistan Conference should have Karzai update on his actions under the Compact while using multilateral organizations to improve the Afghan capacity to effectively utilize international funds. The UK is working the EU process hard, particularly Italy, to get Bank Melli sanctioned in the EU. Governments need to distinguish between sovereign wealth funds, a positive force, and state-owned enterprises, which can be used for political purposes, when discussing potential review measures.  
END SUMMARY

Iraq  
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12. (S/NF) Deputy Secretary Kimmitt and PUS Ricketts agreed that U.S.-UK economic and political-military cooperation in Iraq has been excellent and that more needs to be done to better utilize the large amounts of un-spent financial resources in Iraq. Kimmitt explained that finding sufficient resources was not the problem, rather, Iraq needed to more effectively use the money. Building up Iraq's institutional capacity in order to properly spend funds is key to success. Kimmitt discussed the importance of quickly setting up the one-year review conference for rejuvenating the Iraqi economy. Ricketts pledged the UK would cooperate closely with the U.S. in preparing the conference, and suggested Brussels as a location that was central to most of the major players involved, which could also tap into EU budget coffers. Ricketts agreed to talk to Sweden's Carl Bildt, who had proposed Stockholm, about the possibility of hosting the event in Brussels if Stockholm did not work. Kimmitt noted that economic recovery will be an important issue during U.S. Congressional hearings with Ambassador Crocker and General Petraeus and agreed with Ricketts that it is important for the international community to build Iraqi capacity to "get things done on their own." Ricketts promised the UK embassy in Washington would follow up on next steps for the conference.

Afghanistan

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¶3. (S/NF) The Paris Afghanistan conference in June should be sufficiently high-profile to attract Afghanistan President Karzai, in order, among other goals, to have him brief on Afghanistan's progress under the Compact, Secretary Kimmitt told PUS Ricketts. Ricketts said either

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Foreign Secretary Miliband or Minister Lord Mark Malloch-Brown would attend for the UK. Ricketts expressed concern that Afghanistan's political and security climate had become a more pressing issue than Iraq, and that the UK was worried about: their own military's growing role there, counter-narcotics issues, the need to increase Afghanistan's institutional capacities, and whether Karzai would win the 2009 elections. Ricketts complained that large amounts of money had been disbursed, but not used well, while additional money had been pledged by international donors, but not yet disbursed. Kimmitt stressed the need for effective development assistance.

¶4. (S/NF) Ricketts described Prime Minister Brown's deep interest in stabilizing Afghanistan and using all possible multilateral tools - IMF, World Bank, NATO - to coordinate and step up their efforts. Brown is particularly interested in whether money is being effectively spent, and the need to tie assistance to reforms. Ricketts said the newly named envoy for Afghanistan Kai Eide, was a good pick, but not as effective as Paddy Ashdown would have been.

Iran

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¶5. (S/NF) Secretary Kimmitt noted Italy's hesitation to list Bank Melli and asked if it was a signal by Italy regarding overall Iran sanctions policy or represented

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Italian commercial interests with Melli. Ricketts confirmed that Italy was holding things up in the EU process, and suspected Italy was influenced by long-term commercial ties with Iran, and the desire to maintain relationships for future use. Ricketts said the UK is working to persuade Italy that Melli is a problem, and that FS Miliband was currently approaching Italy at the GAERC. Ricketts predicted the issue would not be resolved at the GAERC March 10-11, but sent to the EU Council later in the week where PM Brown would address it on the margins with his colleagues before sending it back to the GAERC to resolve. Ricketts promised to keep the U.S. Embassy briefed on the results. Kimmitt noted U.S. desires for a stronger UN Security Resolution than what ended up as UNSCR ¶1803. Ricketts agreed and said the UK was frustrated with the EU, and stressed the need to resolve the Melli issue clearly in the EU and have them sanctioned before the Iranian elections.

¶6. (S/NF) Shifting to the UK domestic front, Kimmitt suggested that the UK change its laws to allow the use of confidential information in its sanctions process.

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Ricketts said HM Treasury is looking to allow sensitive information to be used in court, and thanked Kimmitt for raising it with HMT.

Sovereign Wealth Funds

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¶7. (S/NF) Secretary Kimmitt and PUS Ricketts agreed on the need to distinguish between sovereign wealth funds (SWFs) and state owned enterprises (SOEs) when discussing the issue in public and deciding on government approaches in dealing with each group. Kimmitt explained that

in over fifty years of existence, there is no evidence of SWF investment for political reasons. He explained that SWF's own governments need to be more active in addressing concerns about SWF's activities when talking to the press, so that publics do not mistrust their motives. Ricketts said SWFs had been functioning well in London for years, but the UK recently felt the purchase by a Chinese State-owned enterprise of mining company Rio Tinto was done solely as a deliberate and calculated political maneuver. Ricketts also noted that if Gazprom were to show up in London and start purchasing assets it would set off alarm bells, but that on the whole, the UK preferred to let the markets set the tone, rather than government. Ricketts said the UK financial sector was worried when governments talk of regulating SWFs, but were themselves concerned about the role of SOEs.

18. (U) Participants: UK: Peter Ricketts, Permanent Under Secretary, Foreign and Commonwealth Office; Natalie Gowers,

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U.S. Desk Officer, Foreign and Commonwealth Office; Robert Kimmitt, Deputy Secretary, Treasury, Ambassador Robert Tuttle, Eric Meyer, Director, Europe and Eurasia, Treasury, Rob Saliterman, Spokesman, International Affairs, Treasury, Mark Johnson, Notetaker.

19. (U) Deputy Secretary Kimmitt has cleared this cable.

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